



FROM THE BEGINNING: President Barack Obama signs the Patient Protection and Affordable Care Act in March 2010. Ancillary life insurance products now can be offered, directly or indirectly, through health insurance exchanges created by the legislation.

Room at the Table

Group life and disability insurers are now welcome to participate in health insurance exchanges, but will they?

by Paul Correia

The recent announcement that ancillary insurance products can be offered, directly or indirectly, through health insurance exchanges poses opportunities and challenges for group life and disability insurers.

Previously accustomed to viewing their products as exempt from the provisions of the Patient Protection and Affordable Care Act, they now have a potential new distribution channel through exchanges.

Health insurance exchanges are a crucial component of the health care reform brought about by the ACA. Simply put, exchanges are online insurance marketplaces where individuals and groups can purchase insurance from a broad selection of insurance products. Public exchanges that facili-

Key Points

- ▶ **The Situation:** Health insurance exchanges now can offer group life and disability products.
- ▶ **The Method:** These products will be available through mandated Small Business Health Options Programs.
- ▶ **The Marketplace:** With only one-third of workers insured by group disability insurance, exchanges offer a new way to reach many potential clients.

tate the distribution of group products are known as Small Business Health Options Programs, commonly called SHOP exchanges. These exchanges offer insurance options to groups of fewer than 100 employees, or fewer than 50 employees in some states.

Contributor Paul Correia is a consulting actuary for Milliman, based in Portland, Maine. He can be reached at paul.correia@milliman.com



Official White House Photo by Pete Souza

Each state is required to create a SHOP exchange, or to participate in a federal SHOP exchange. States will have flexibility in structuring and running their SHOP exchanges. Group insurance companies that operate in multiple jurisdictions will therefore need to conform to multiple formats and standards for distributing products across state lines, which could deter some insurers from SHOP exchanges.

Furthermore, if a SHOP exchange is to facilitate sales of ancillary insurance products, then associated costs will be borne by participating ancillary insurance carriers. It is partly due to these reasons that group life and disability insurers are eyeing private exchange markets more favorably for distributing their products.

For purchasing group insurance through private exchanges, employers will generally set up pre-tax payroll withholding defined-contribution plans, such as Section 125 cafeteria plans, from which contribution funds can be used by employees to cover costs of buying insurance. The insurance plans made available to employees are selected in advance by the employer. In some cases, employees will be able to choose the plan that best suits their needs from among multiple plan options. Otherwise, employees will simply choose whether or not to participate in a single plan that applies to the entire group.

Conceived as a means to create a medical insurance market for individuals not covered by employer-provided plans, exchanges have the ability to offer other types of insurance as well, either directly or indirectly.

Unlike their public counterparts, private exchanges are at liberty to market and sell ancillary insurance products directly to consumers and on the same platform as major medical and dental insurance products. Private exchanges may also offer payroll administration and enrollment services that could appeal to employers and insurers alike. These are a few of the reasons why private

exchanges are more popular than SHOP exchanges among group life and disability insurers.

Group Life and Disability

Private health insurance exchanges have begun ramping up efforts to include disability, life and other ancillary insurance products on their exchange websites. Some private exchanges that have emerged in recent months only offer ancillary products. The industry is anticipating an increased demand for these products as health care reform continues to transform the insurance landscape.

Many group life and disability insurance companies are still developing their exchange strategies. Those that are considering participating in exchanges are giving serious thought to the inherent pricing challenges.

“Employers want to provide employees with access to ancillary insurance products, and are seeing opportunities to do so through private exchanges,” noted Rhonda Marcucci of GruppoMarcucci, a Chicago-based consulting firm specializing in human resources and benefits administration technology.

The federal government has followed suit, to a certain extent, by facilitating sales of ancillary insurance products on SHOP exchange websites. Earlier this year, the U.S. Department of Health and Human Services announced that ancillary insurance products can be purchased indirectly through public exchanges. According to a statement from HHS:

“An exchange may provide basic information about ancillary insurance products on the exchange website. Purchasing information could include the ability for consumers to click on a product link that would take them to a page containing product and pricing

information, where they could add the product to a shopping basket and purchase the product along with any [qualified health plan] products.”

The expansion of private and public exchanges into more diverse insurance markets presents both opportunity and risk to group life and disability insurers. Although exchanges promise insurers potential growth opportunities through new forms of distribution, enrollment and administration, there is still uncertainty as to how new business will evolve under these models.

Pricing on Exchanges

Many group life and disability insurance companies are still developing their exchange strategies. Those that are considering participating in exchanges are giving serious thought to the inherent pricing challenges.

The lack of historical experience in this market segment poses obvious challenges. First, the demographics and risk characteristics of future insured populations are unknown. Some insurers speculate that exchanges may be popular among cost-conscious employers and first-time buyers of ancillary products, for example, but there are many unknowns, such as variations by employer size or location.

Second, future participation levels are unknown. Most voluntary group life and disability insurance products have minimum participation requirements to mitigate anti-selection risk. But it may be difficult to enforce these requirements in exchange markets.

One-on-one sessions with employees and group meetings at the work site have been effective for boosting participation, but these initiatives likely will not be integrated with exchange enrollment platforms. Insurers may be reluctant to refuse coverage to a case that fails to meet a minimum participation requirement on an exchange. They may also be pressured to dispense with minimum participation requirements entirely.

Finally, there are concerns over

allowing plans to be split among multiple insurers. Disability and life insurers typically have been immune to this issue, although it is not uncommon in the large-group medical insurance market. The primary concern is that allowing employees to choose from among multiple insurers' plans will exacerbate anti-selection risk. The consensus, however, seems to be that exchanges will not split disability and life insurance plans among multiple insurers in the near term, although this could be a subsequent development.

Broker Compensation

The term "navigator" refers to a broker or agent who provides enrollment services to eligible individuals, employers or employees through public exchanges. Although navigators are not allowed to receive compensation from insurance companies for facilitating enrollment into qualified health plans (for instance, major medical and dental plans sold directly through public exchanges), they are permitted to receive commissions for sales of ancillary insurance products.

In other words, if ancillary products are purchased in conjunction with qualified health plans through a navigator, then the navigator may receive compensation for the sale of the ancillary products. It remains to be seen how often these types of situations will arise.

Because public exchanges seem to circumvent brokers, and because medical loss ratio requirements depress broker compensation on medical insurance, brokers will be more inclined to create private exchanges for selling ancillary insurance products. Insurance brokers who sponsor private exchanges are looking to insurers for financial support to cover costs of developing and maintaining exchange infrastructures. Methods include charging fixed fees to insurers for participating in the exchange, and for other items such as enrollment mechanisms and reporting capabilities.

Some group life and disability insurers have expressed concerns that

existing relationships with brokers could deteriorate as a result of shifting sales dynamics caused by exchanges. It may be easier for large brokerage firms to enter the exchange markets than smaller firms, giving large brokerage firms an advantage. Insurers who work with smaller brokers understand these dynamics and are concerned about the potential fallout.

Brokers who sell disability and life insurance through exchanges may find it difficult to adjust to the new format. By design, exchanges are meant to be both user-friendly and transparent, as are most successful online ventures.

This could be accomplished by limiting the number of insurers on exchange websites, since technology often works best when it limits the number of players. However, the trend in group life and disability insurance has been for brokers to increase the number of carriers bidding on cases, in order to help identify the best combination of plan design and price. It's not clear how these competing priorities ultimately will be resolved.

Enrollment and Administration

Group life and disability insurers understand that exchanges can provide valuable enrollment platforms for tapping into new markets. It is likely, however, that some exchanges will be better than others at providing enrollment and distribution support, and some may be able to provide administrative services that others cannot provide.

These insurers should pay close attention to capabilities such as the ability of an exchange to efficiently process changes in employee earnings, or the ability to effectively administer open enrollments of new hires. Exchanges that have solid front- and back-end capabilities should appeal most to group life and disability insurers.

Some group life and disability insurers have not invested in voluntary products and are now faced with the decision of whether to invest in these products and potentially participate in

exchanges or not. Insurers that already operate in voluntary markets need to decide what types of products should be offered through exchanges.

Designing products that are attractive to employers is critical. Equally important is the ability to market these products on exchange platforms. Insurers are considering marketing strategies that take advantage of exchange formats. For example, insurers may see opportunities for distributing less-prevalent ancillary products, such as accident indemnity and critical illness insurance, traditionally sold through work site distribution channels. Because exchanges fundamentally facilitate sales of voluntary products, they could prove to be effective at bolstering enrollment and participation in these types of products.

Will the Technology Work?

There is some concern that exchange technology will not work as anticipated. If the process of purchasing insurance through exchanges is too cumbersome, then some employees may not buy it. In particular, younger and healthier employees may not even bother with disability or life coverage if the purchasing process is a burden.

On the other hand, unhealthy people would likely take the time to purchase these types of insurance products if they believed that they would need them. Healthy employees must participate in insurance plans as well in order to spread the risk. Otherwise, insurers could be faced with significant losses.

Whether buying books, clothing or electronics, most consumers today seem to enjoy online shopping and the choice and flexibility it brings. Given that only one-third of the working population is insured under group disability coverage, disability insurers often wonder how to improve market penetration and connect with first-time buyers.

Exchanges are therefore a step in the right direction for the distribution of insurance plans funded by defined contributions. BR